



## Analyses of the Thailand-India FTA and ASEAN-India FTA

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### 1. Introduction

India has, for a long time, been an important trade partner and ally of Thailand's. In 2014, India was ranked 15th<sup>1</sup> as Thailand's most important trade partners and the bilateral trade between the two countries have been growing steadily with the average total trade of the last 5 years (2000-2014) equal to 8,212.43 million USD<sup>2</sup>. Important trade milestones for both countries came in 2003 when the two parties signed the landmark Thailand-India Free Trade Agreement (TIFTA) and further solidified the relationship in 2009 when the ASEAN-India Free Trade Agreement (AIFTA) was signed. The first issue of this Insight provides an overview of both FTAs and showcases their importance and contribution to the Thai economy by analyzing the effects they have on the import and export between the two countries and the associated growth rates. The following sections will present the summary of both TIFTA and AIFTA, investigate trade impact caused by such FTAs, considers the utilization of both FTAs thus far, and identifies sectors significantly affected by the implementation of both agreements.

### 2. TIFTA and AIFTA

As mentioned, there are two related free trade agreements between Thailand and India. These are Thailand-India Free Trade Agreement (TIFTA) and ASEAN-India Free Trade Agreement (AIFTA). The summary of both FTAs can be presented as follows:

#### Thailand-India Free Trade Agreement: TIFTA

Thailand-India Free Trade Agreement (TIFTA) was signed on 9 October 2003 and the Protocol to Amend the Framework Agreement for Establishing Free Trade Area between the Kingdom of Thailand and the Republic of India was signed on 30 August 2004.

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<sup>1</sup> Thailand's Trade Partners in 2014, Department of Trade Negotiations, <http://www.dtn.go.th>

<sup>2</sup> Thailand's International Trade Statistics, Ministry of Commerce, <http://www2.ops3.moc.go.th>



For trade in goods, both Thailand and India have agreed to reduce import tariff by using the applied MFN tariff rate as of 1 July 2007 as base. The reduction/exemption of import tariff for goods is divided into groups as follows:

- Early Harvest Scheme (EHS)<sup>3</sup>: 82 items (+1 item) have had 0% duty since 1 July 2006;
- Normal Track (NT): Around 80% of the six-digit Customs tariffs;
- Sensitive Track (ST): Around 10% of the six-digit Customs tariffs;
- Exclusion List (ET): Mandated to be reviewed every 3 year after the agreement coming into effect or sooner, depending on what has been agreed upon. There shall be no more than 489 items in the Exclusion List and the import value of no more than 7.8%.

The Early Harvest Scheme (EHS) covers important agricultural and industrial products which can be divided into 8 main groups as follows:

- 1) Agricultural product group such as rambutant, longan, mangosteen, durian, mango, grape and wheat;
- 2) Processed seafood group such as sardine, whole or sliced salmon, mackerel and seasoned crab;
- 3) Gems and jewelry group such as precious stone and diamond dust;
- 4) Plastic and chemical group such as polyurethane, polyester and other inorganic acid;
- 5) Machinery group such as pump, pendulum, jack machine, rake and faucet mold machine;
- 6) Electrical appliances such as air conditioner, fan, fridge and wireless phone;
- 7) Automobile parts such as gearbox

Apart from the EHS group, Thailand and India will continuously negotiate for duty reduction/exemption on other products with an attempt to maximize product coverage for both countries.

#### ASEAN-India Free Trade Area: AIFTA

The ASEAN-India Free Trade Area (AIFTA) was negotiated under the Framework Agreement on Comprehensive Economic Cooperation between the ASEAN and the Republic of India. The ASEAN and Indian leaders signed the AIFTA on 8 October 2003 in Indonesia. The negotiation framework includes trade in goods, trade in services, investment, economic cooperation, dispute settlement and offers flexibility to the 4 new ASEAN countries (Cambodia, Laos, Myanmar and Vietnam: CLMV).

The AIFTA was divided into smaller agreements on trade in goods, trade in services and investment which started by negotiating the Agreement on Trade in Goods under the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and the Republic of India, which was signed in 2009 and came into effect since 1 January 2010.

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<sup>3</sup> The Second Protocol to Amend the Framework Agreement was signed to add one more item which is a compression-type combined refrigerator-freezer, fitted with separate external goods, household type



The duty reduction/exemption covers over 90% of traded products between both parties. The product groups entitled to duty reduction can be divided into 4 groups as follows:

- Normal Track 1 and Normal Track 2;
- Sensitive Track such as agricultural and processed agricultural products;
  - For Thailand: fish, vegetable, fruit, bean, processed vegetable and fruit, beverage, chemical products, plastic products, textile and apparel, shoes, machinery and electronics;
  - For India: fish, vegetable, fruit, chemical products, plastic products, wood and products, textile and apparel, shoe, ceramic products, machinery and electronics;
- Highly Sensitive List;
  - For Thailand: women and girls' clothing (HS 6206.10 and 6206.90), shawl and scarves (HS 6214.10), shoe (HS 6403.59), jewelry (HS 7113.11), gold and silver jewelry (HS 7114.11 and 7114.19), metal products (HS 7301), media for the recording of information/audio/video (HS 8523), automobile parts and equipment (HS 8708), and bicycle (HS 8712);
- Exclusion List (no retroactive tax reduction);
  - For Thailand: chilled or frozen bovine meat, fish, prawn, chicken, milk and products, tea, coffee, onion, garlic, rice, sugar, cassava, soybean meal, silk, shoes, leather, automobiles, engines, chassis, brake, choke, car boiler, iron and products, etc.;
  - For India: fish, prawn, chicken, milk, vegetable, fruit, onion, rice, sugar, cassava, liquor, tobacco, light oil, chemical product, latex, smoked rubber sheets, apparel, lingerie, sports shoes, motor vehicles, axle, choke, boiler, electrical motor, starter, etc.

The reduction/exemption of import tariff enables both Thailand and India to export more of their products. Thailand's important exports include electrical appliance, electronic equipment, air conditioning and parts, chemical product, plastic granules and products, plastic, cosmetic, gem and jewelry, thread and synthetic fiber, furniture, and automobile parts and equipment, among others. However, the products on which Thailand reduces import tariff for India mostly consist of the products Thailand imports from India in small quantities and are used as raw materials for continuous production. This would effectively help Thailand reduce the production cost and increase its competitiveness.

### 3. Impact from TIFTA and AIFTA on Bilateral Trade between Thailand and India

To compare trade impact of TIFTA which came into effect in 2004 and AIFTA which came into effect in 2010 on both Thailand and India, the researchers have compiled the export values from Thailand to India, the import values from India to Thailand and the trade balance for 3 years before and after TIFA and AIFTA were effective. The aforementioned data is illustrated in table 1 and table 2, respectively.



**Table 1: Export, import and trade balance values between Thailand and India, before and after TIFTA came into effect (2001-2007)**

	Value: Million USD						
	2001	2002	2003	2004 <sup>4</sup>	2005	2006	2007
<b>Export</b>	482.06	413.21	640.30	911.66	1,518.93	1,810.75	2,852.87
<b>Import</b>	673.14	776.24	878.95	1,137.33	1,271.44	1,622.56	2,079.44
<b>Trade balance</b>	-191.08	-363.03	-238.66	-225.68	247.48	188.19	773.43

Source: Bolliger and Company (Thailand) Limited, compiled from International Trade Centre

**Table 2: Export, import and trade balance values between Thailand and India before and after AIFTA came into effect (2007-2013)**

	Value: Million USD						
	2007	2008	2009	2010 <sup>5</sup>	2011	2012	2013
<b>Export</b>	2,852.87	3,369.23	3,222.35	4,393.58	5,181.44	5,481.36	5,182.29
<b>Import</b>	2,079.44	2,611.16	1,727.54	2,252.74	3,012.59	3,198.16	3,502.96
<b>Trade balance</b>	773.43	758.06	1,494.81	2,140.84	2,168.84	2,283.20	1,679.33

Source: Bolliger and Company (Thailand) Limited, compiled from International Trade Centre

From the tables above, it is seen that free trade agreements with India greatly benefit Thailand. There were expansions of export and import values between Thailand and India arising from both FTAs. When considering the export values after TIFTA came into effect, Thailand's export to India increased to 2,852 million USD in 2007 from 640 million USD in 2003. At the same time, the import values from India increased to 2,079 million USD in 2007 from 878 million USD in 2003.

Moreover, when considering the trade values after AIFTA came into effect, the overall trade values between Thailand and India also rose. The export values from Thailand to India increased to 5,182 million USD in 2013 from 4,398 million USD in 2010. At the same time, the import values from India increased to 3,502 million USD in 2013 from 2,252 million USD in 2010.

Table 3 shows compound annual growth rates (CAGR) of the export/import values between Thailand and India, comparing to the trade growth before and after the agreements came into effect by using the 3-year CAGR before and after TIFTA and AIFTA came into effect.

<sup>4</sup> TIFTA came into effect in 2004 only for the Early Harvest products

<sup>5</sup> AIFTA entered into force in 2010.



**Table 3: CAGR comparison between the export and import values between Thailand and India before and after the FTA**

	CAGR of the export values of Thailand		CAGR of the import values of Thailand	
	Pre-FTA	Post-FTA	Pre-FTA	Post-FTA
TIFTA (1 September 2004) (Early Harvest products)	23.66%	46.27%	19.10%	22.28%
AIFTA (1 January 2010)	15.48%	5.66%	2.70%	15.85%

Source: Bolliger and Company (Thailand) Limited, compiled from International Trade Centre

The above table shows that the post-TIFTA export growth from Thailand to India has increased to 46.27% while the post-AIFTA export growth from Thailand to India has slowed to 5.66%, a rate smaller than the pre-AIFTA period of 15.48%. The post-TIFTA import growth from Thailand to India has increased to 22.28 and to 15.85% for the post-AIFTA.

In conclusion, it is evident that TIFTA has contributed to trade expansion between Thailand and India especially the export of Thai products to India. Even though the import post-TIFTA grew at a smaller rate than the pre-TIFTA period, it was consistent with Thailand's import from other trade partners during the same time.

Moreover, AIFTA also contributes to the trade expansion between Thailand and India in a significant way even though AIFTA came into effect after TIFTA. Because TIFTA's tariff reduction only covers 82 product items (Early Harvest), the tariff reduction under AIFTA has greater impact on the bilateral trade between the two countries.

#### 4. FTA Utilization under TIFTA and AIFTA

Thai exporters can utilize tariff privilege either under TIFTA or AIFTA when exporting products to India. In 2013, Thailand has utilized TIFTA at 74.21% and AIFTA at 40.18% (as shown in Table 4).

Information from the Department of Foreign Trade, the Ministry of Commerce, shows that main export products using the TIFTA privilege are air conditioning (32%), polycarbonate (12%), aluminium alloy (10%), epoxy resin (6%), color television (5%), and automobile parts (4%).

At the same time, main export products using tax privilege under AIFTA the most are diesel engine (14%), polymer (4%), automobile parts (3%), air compressor (3%), ethylene (2%), air conditioning parts (2%), polyvinyl chloride (2%), vehicle radio (2%), benzene (2%) and polyethylene (2%).



**Table 4: Thailand's export to India under relevant FTAs from 2009-2013**

Items	Value: Million USD				
	2009	2010	2011	2012	2013
Overall export values under TIFTA	507.59	786.45	1,0002.79	993.76	795.45
Export values of products utilizing tariff reduction under TIFTA	352.75	566.21	748.15	696.06	590.29
<b>TIFTA Utilization (%)</b>	69.50%	72.00%	74.61%	70.04%	74.21%
Overall export values under AIFTA	3,683.61	4,387.85	4,387.85	4,789.90	4,110.84
Export values of products utilizing tariff reduction under AIFTA	875.46	1,223.73	1,223.73	1,384.83	1,654.54
<b>AIFTA Utilization (%)</b>	23.77%	27.89%	27.89%	28.91%	40.18%

Source: Trade Privilege Utilization Magazine, Bureau of Trade Preference, Department of Foreign Trade, 2009-2013

## 5. Sector Analysis

This section identifies the sectors whose exports and imports are significantly affected by the TIFTA and AIFTA. In so doing, the following method has been employed.

- The export / import tariff gap of each sector is computed. The gap is defined as the difference between the tariff rate under the TIFTA / AIFTA and the MFN rate. In this study, the term "export tariff" is used to refer to the tariff imposed by India on Thai exports whereas "import tariff" is used to refer to tariff imposed by Thailand on imports from India.
- The pre-TIFTA / pre-AIFTA CAGR of exports / imports of each sector is computed.

The sector in question is considered significantly affected by the TIFTA / AIFTA if both tariff gaps and CAGR are greater than the average of all sectors. In the tables that would follow, sectors that meet such criteria are indicated with "✓".

Table 5 shows the export tariff gap and export CAGR calculations and the analysis of the positive impact on Thailand's export to India resulted by the implementation of TIFTA and AIFTA by sector. Thailand's export under TIFTA benefits the following industries the most: automobile, gems and jewelry, textile and apparel, electrical appliances and electronics, petroleum, plastic and products, metal and iron, wood products and paper; and under AIFTA: Tea, coffee, plant oil, fat and products, beverage and tobacco, automobile and gems and jewelry.

Table 6 shows the import tariff gap and import CAGR calculations and the analysis of the negative impact on Thailand from importing from India under TIFTA and AIFTA by sector. The most affected industries in Thailand from importing from India under TIFTA are fruit, vegetable, plants and products, automotive industry, electrical appliances and electronics, petroleum, plastic and products, wood products and paper,



and those under AIFTA are animal products, milk and products, fruit, vegetable and products, cereal and products, automotive, leather, shoes and headgear equipment.

**Table 5: Export tariff gap and export CAGR calculation and the analysis on the benefits from Thailand's export to India under TIFTA and AIFTA by industry**

Industry	TIFTA			AIFTA		
	Export Tariff Gap	Export CAGR (2004-2007)	Significant Impact	Export Tariff Gap	Export CAGR (2010-2013)	Significant Impact
Animal products	0.00%	287.09%		4.83%	-3.68%	
Fishery products	15.00%	-24.18%		4.87%	-15.09%	
Milk & products	0.00%	67.27%		5.00%	-59.81%	
Fruit, vegetable, plant & products	18.00%	28.30%		4.62%	-0.50%	
Tea & coffee	0.00%	29.40%		5.00%	8.74%	✓
Cereal & products	50.00%	35.15%		1.47%	-20.91%	
Plant oil, fat & products	0.00%	55.11%		5.16%	85.03%	✓
Sugar & products	0.00%	-14.18%		4.75%	-70.29%	
Seasoned food	0.00%	77.42%		5.00%	-1.11%	
Beverage and tobacco	0.00%	-27.05%		3.88%	8.18%	✓
Other industries	10.83%	54.38%	✓	2.07%	3.37%	
Rubber & products	0.00%	37.90%		1.80%	2.54%	
Automotive industry	12.50%	42.41%	✓	4.12%	10.17%	✓
Gems & Jewelry	12.50%	41.68%	✓	2.37%	11.24%	✓
Textile & apparel	12.50%	8.14%		2.03%	3.53%	
Electrical appliance & electronics	10.79%	33.54%	✓	1.68%	5.48%	
Petroleum	12.50%	52.11%	✓	1.50%	5.81%	
Chemicals	12.50%	28.20%		2.37%	5.30%	
Wood products & paper	12.50%	57.13%	✓	2.23%	7.80%	
Leather, shoes & headgear equipment	0.00%	36.15%		1.37%	1.99%	
Ore, metal & iron	15.25%	98.03%	✓	2.20%	11.35%	
Machinery	12.50%	47.61%	✓	2.34%	-6.43%	
<b>Total products</b>	<b>13.63%</b>	<b>46.27%</b>		<b>2.36%</b>	<b>5.66%</b>	

Remark: ✓ indicates that the sector has high export tariff gap and high export CAGR when compared with other sectors

Source: Bolliger and Company (Thailand) Limited



Table 6: Import Tariff Gap and Import CAGR calculation and the analysis on the impact of the import from India under TIFTA and AIFTA by industry

Industry	TIFTA			AIFTA		
	Import Tariff Gap	Import CAGR (2004-2007)	Significant Impact	Import Tariff Gap	Import CAGR (2010-2013)	Significant Impact
Animal products	0.00%	11.65%		14.69%	107.03%	✓
Fishery products	12.50%	17.60%		2.95%	11.27%	
Milk & products	0.00%	373.86%		19.31%	43.91%	✓
Fruit, vegetable, plant & products	15.00%	48.97%	✓	8.03%	28.41%	✓
Tea & coffee	0.00%	7.18%		28.58%	-23.55%	
Cereal & products	0.00%	3.95%		10.41%	91.30%	✓
Plant oil, fat & products	0.00%	-2.11%		6.62%	13.48%	
Sugar & products	0.00%	220.75%		19.10%	-78.34%	
Seasoned food	0.00%	31.32%		7.39%	3.01%	
Beverage and tobacco	0.00%	-7.87%		32.13%	-1.75%	
Other industries	3.42%	21.35%		1.72%	19.97%	
Rubber & products	0.00%	34.79%		1.99%	25.75%	
Automotive industry	8.50%	46.63%	✓	19.67%	19.89%	✓
Gems & Jewelry	2.63%	13.81%		1.04%	18.33%	
Textile & apparel	10.00%	21.69%		2.69%	10.87%	
Electrical appliance & electronics	5.66%	55.20%	✓	2.14%	-3.23%	
Petroleum	10.63%	44.43%	✓	1.72%	12.89%	
Chemicals	0.50%	22.78%		1.09%	8.77%	
Wood products & paper	5.63%	31.73%	✓	1.76%	2.59%	
Leather, shoes & headgear equipment	0.00%	9.55%		7.57%	18.09%	✓
Ore, metal & iron	2.60%	18.65%		3.69%	26.10%	
Machinery	1.32%	39.90%		0.62%	-3.05%	
<b>Total products</b>	<b>5.50%</b>	<b>22.28%</b>		<b>4.77%</b>	<b>15.85%</b>	

Remark: ✓ indicates that the sector has high export tariff gap and high export CAGR when compared with other sectors

Source: Bolliger and Company (Thailand) Limited





## 6. Conclusion

It is seen that both TIFTA and AIFTA have contributed significantly to bilateral trade expansion between Thailand and India, particularly the export from Thailand to India, and more so for AIFTA than TIFTA because the former covers more products for tariff reduction. With India fast becoming a major economic player in the international arena and its ever growing and vast population, Thailand's trade relationship with India has never been more important. India further solidifies its place as ASEAN's important ally by taking part in the Regional Comprehensive Economic Partnership (RCEP) with the regional bloc and other trade partners in the Asia-Pacific region. Even with the aforementioned progress, it remains important that the bilateral trade between Thailand and India continues to thrive and negotiation in expanding the product coverage for tariff reduction under TIFTA should remain a priority. In addition, despite the emphasis on the trade in goods aspect of both FTAs, trade in services, investment and economic cooperation should also be highlighted as they are undeniably an integral part of the trade relationship between the two countries.



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